SEPTEMBER 27, 1982 TWO DOLLARS AND FIFTY CENTS

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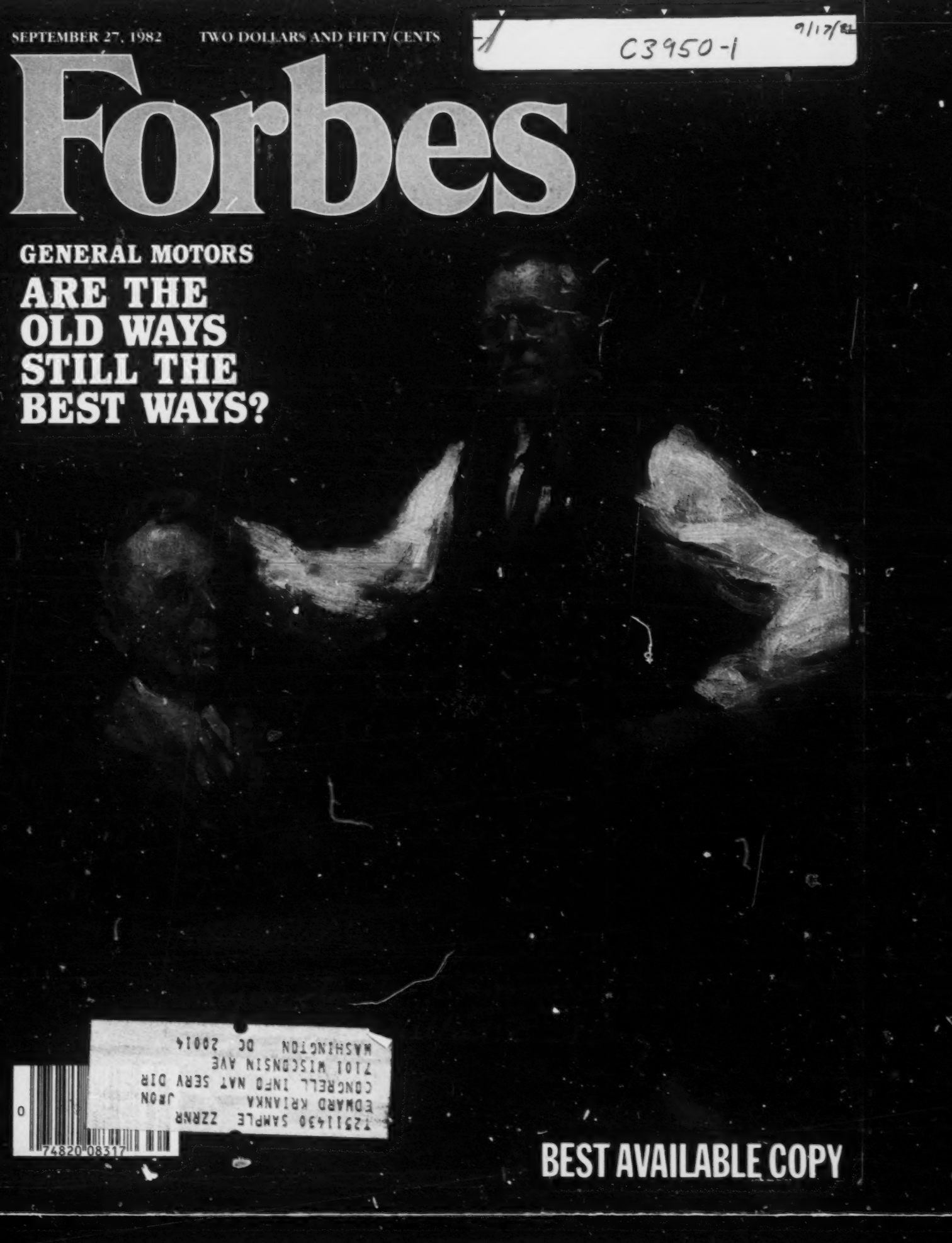
# Forbes

## GENERAL MOTORS
## ARE THE OLD WAYS STILL THE BEST WAYS?



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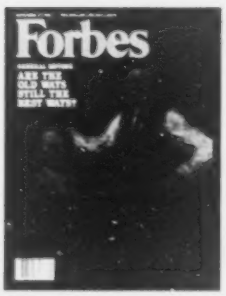


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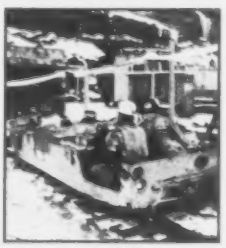

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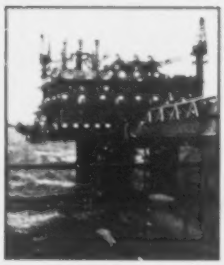

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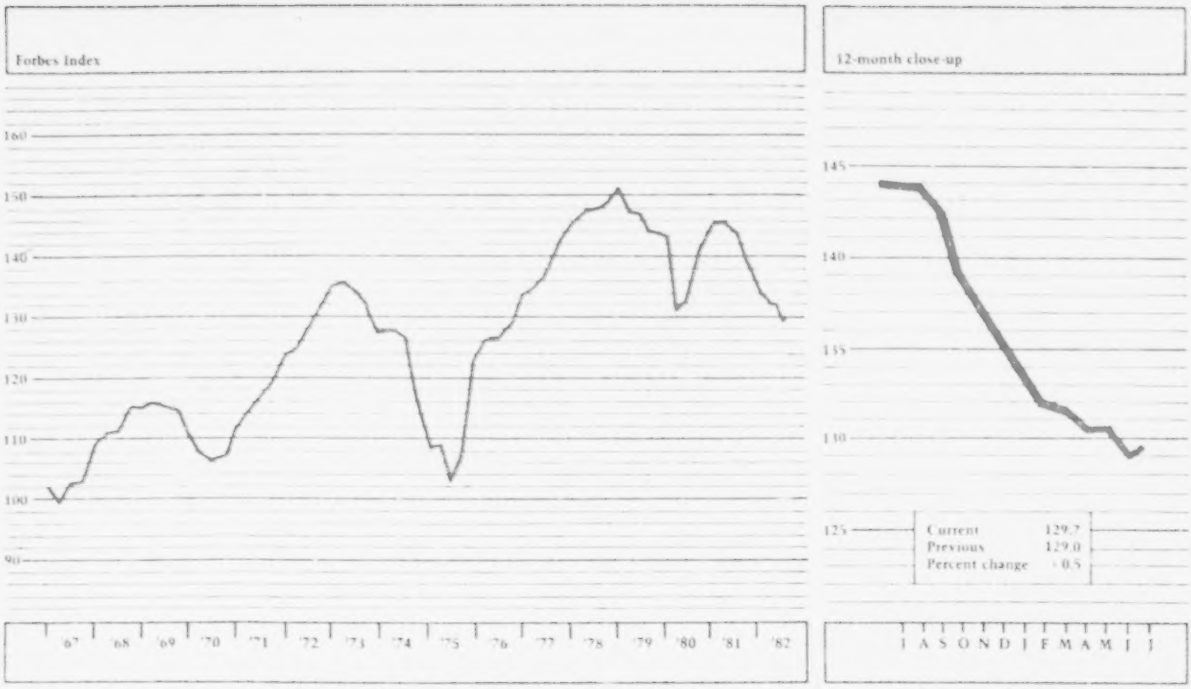
# The Forbes Index



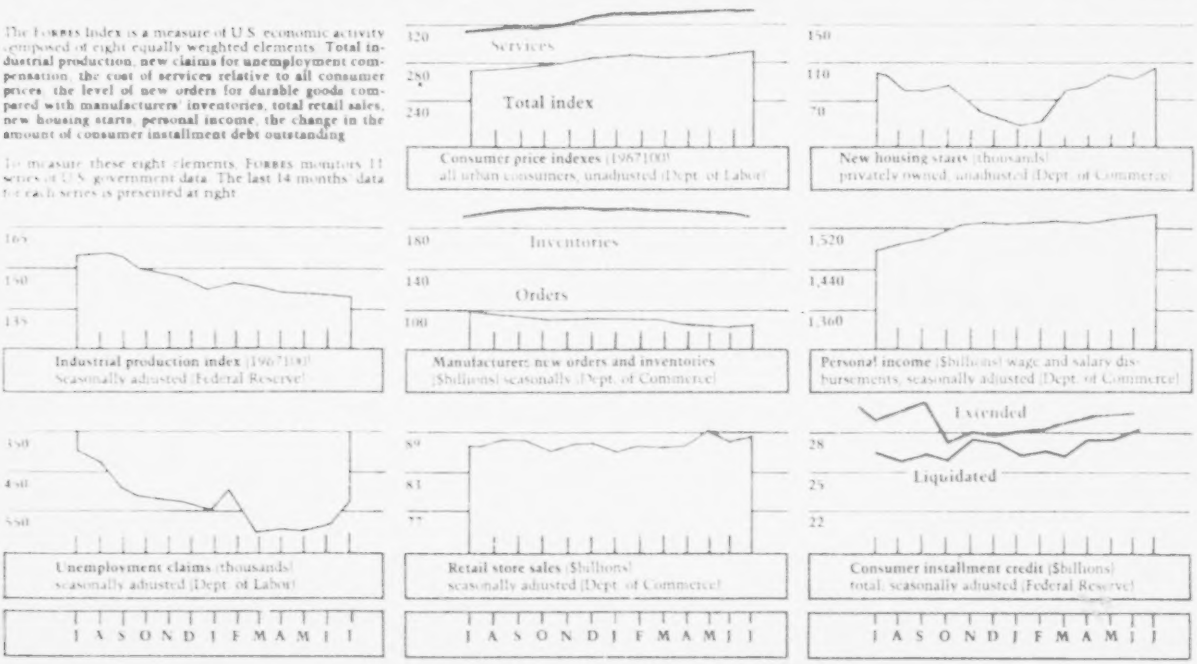

**Onward and upward—again.** The Forbes Index has posted its second consecutive gain. After three months of decreases, manufacturing orders vaulted 4%. There was also good news on the inflation front: The Consumer Price Index posted a meager 0.6% rise, against gains of 1% and 1.2% in May and June. Prices in service-related industries, meanwhile, rose by only 0.6%, compared with a 0.9% jump during the previous reporting period.

But not all the news was good. Manufacturers are still trimming inventories. That means the fuel for the recovery will have to be provided, at least initially, by consumers. They should step up their spending when the recent decline in interest rates spreads to installment loans, which have held steady at 18% or higher.

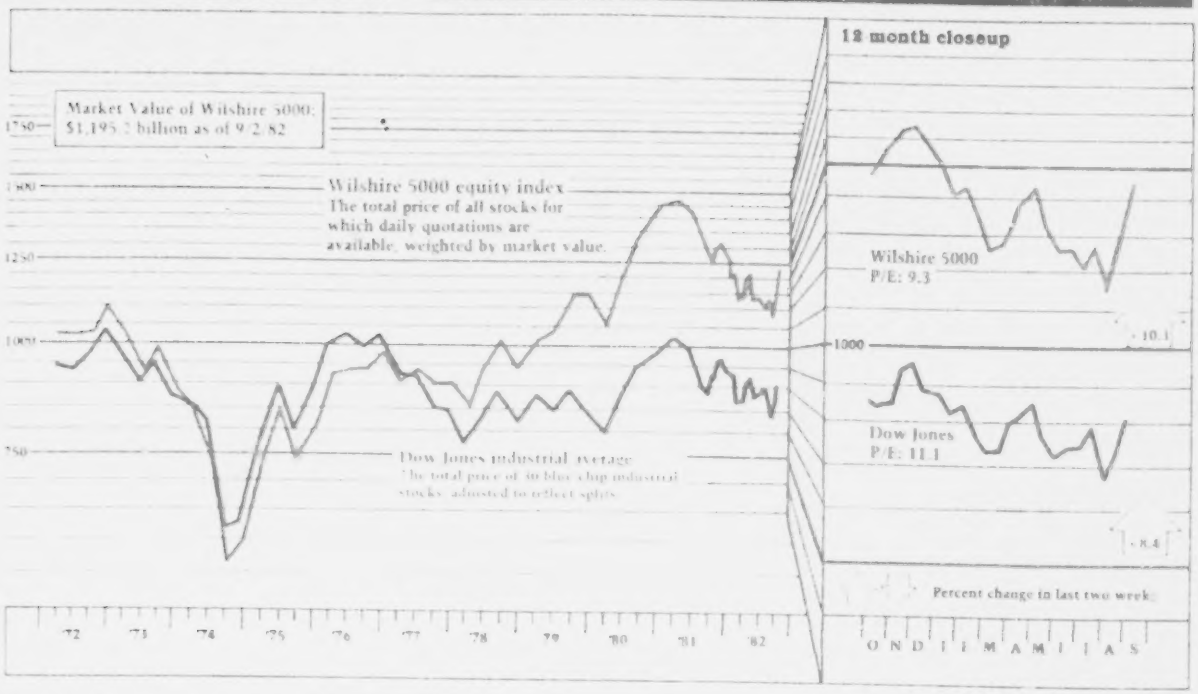
## The Forbes Index Components

The Forbes Index is a measure of U.S. economic activity composed of eight equally weighted elements: **Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, the level of new orders for durable goods compared with manufacturers' inventories, total retail sales, new housing starts, personal income, the change in the amount of consumer installment debt outstanding.**

To measure these eight elements, Forbes monitors 11 series of U.S. government data. The last 14 months' data for each series is presented at right.



# The Forbes/Wilshire 5000 Review




**Waiting for the wild card.** This rally is the result of a headfirst plunge into blue chip securities by foreign and institutional investors. Individual investors are largely still on the sidelines. Over the last week money market fund assets decreased by only $899 million, while the Wilshire index shows that total market capitalization jumped by almost $100 billion over the last two weeks. What next? Fear of missing the rally may coax more investors into the market. Then again, Wall Street may suddenly lose its euphoria because of sluggish economic performance.

Interest in blue chips, meanwhile, remains strong. The 30-stock Dow is a limited shopping list, and during this rally it has scored handsome gains. Thus the movement into other quality areas of the market. While the Dow continued its strong momentum and gained 8.4% during the last two weeks, it lagged the broader NYSE and Forbes 500 indexes. Each of these was up more than 10%. Another encouraging sign is the even stronger performance of the Amex, which gained 13.2%. NASDAQ issues moved up in line with the Dow—an indication that quality rather than speculation is motivating investors.

## Close-up On The Equity Markets

**Performance of six leading indexes**

| Percent change | Wilshire 5000 | Forbes 500[1] | Dow Jones industrials | NYSE Composite | Amex Market Value Index | NASDAQ Composite |
|---|---|---|---|---|---|---|
| in last 4 weeks | 13.6 | 14.3 | 14.3 | 14.1 | 13.6 | 8.7 |
| in last 52 weeks | –3.7 | NA | 4.9 | –1.8 | –16.7 | –0.5 |

**Stock performance based on five key investor yardsticks**

| Percent change | Volatility[2] | | P/E multiple | | Dividend yield | | Growth profile[3] | | Share price | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | low | over 25 | under 5 | over 7.5% | none | high | low | over $40 | under $4 |
| in last 4 weeks | 13.0 | 5.5 | 10.3 | 10.4 | 7.7 | 9.4 | 12.4 | 8.2 | 12.8 | 7.1 |
| in last 52 weeks | 3.2 | 8.3 | –11.7 | 11.7 | 9.0 | 8.5 | 3.9 | 7.8 | –1.9 | –2.7 |

NA: Not available
[1] Based on sales.
[2] A stock's sensitivity to overall market movement. High volatility issues have wide price fluctuations, low volatility issues are more stable.
[3] A quantitative evaluation of a stock's growth image, determined by Wilshire Associates.

Note: All data for periods ending 9/2/82. Prepared by Wilshire Associates, Santa Monica, Calif.

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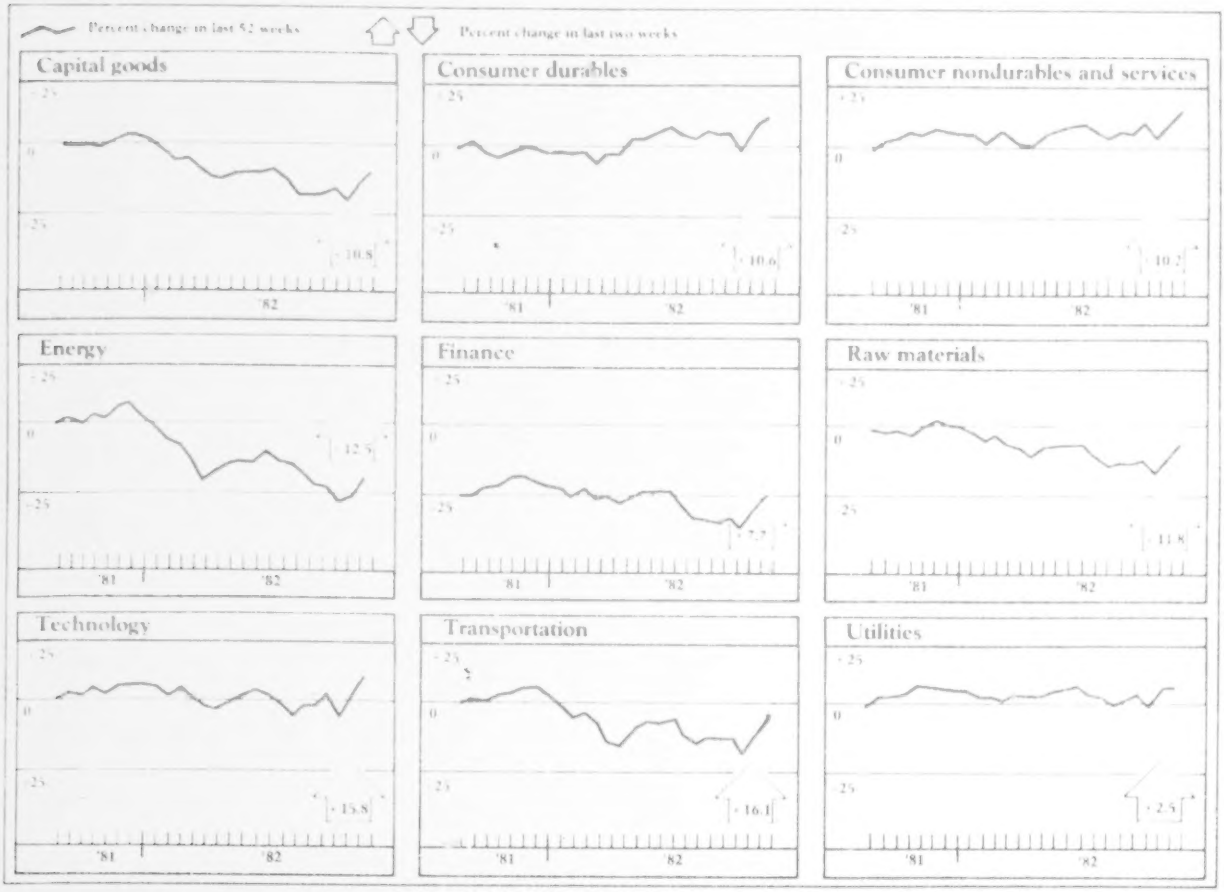
## Where The Action Is

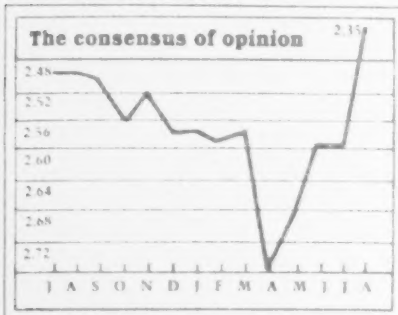
**On the offensive.** Wall Street has finally lost its fascination with defensive stocks. With a slim 2.5% two-week gain, utilities were the weakest sector. Investors, it seems, now see better opportunities in other areas—despite the enhanced attractiveness of utilities' double-digit yields in an environment of declining interest rates.

Transportation issues, meanwhile, gained more than 16%, with a number of trucking companies, railroads and airlines hitting 52-week highs. Technology stocks, spurred by a more than 3-point one-week gain in IBM, were ahead by 15.8%. And energy stocks restored some of their 52-week losses with a 12.5% advance.




## What The Analysts Think

**Looking for Mr. Consumer.** Over the last two weeks analysts moved consumer nondurable issues all the way from seventh to first place in their ranking of buy recommendations. Meanwhile utilities dropped from first to fourth. Given the enormous jump in Wall Street volume, the finance sector moved up smartly, too.




| Rank | Sector | Current opinion | Rank 2 weeks ago | Rank 4 weeks ago |
|---|---|---|---|---|
| 1 | Consumer non-durable | 2.08 | 2.69 | 2.69 |
| 2 | Finance | 2.27 | 2.65 | 2.66 |
| 3 | Technology | 2.34 | 2.40 | 2.40 |
| 4 | Utilities | 2.35 | 2.36 | 2.44 |
| 5 | Energy | 2.40 | 2.53 | 2.63 |
| 6 | Capital Goods | 2.47 | 2.49 | 2.50 |
| 7 | Transportation | 2.65 | 2.67 | 2.76 |
| 8 | Raw materials | 2.66 | 2.75 | 2.76 |
| 9 | Consumer durables | 2.69 | 2.70 | 2.69 |

Opinion ratings are ranked on a scale of 1 (strong buy) to 5 (strong sell). Data reflect the views of 200 institutional analysts. The consensus of opinion graph is the composite rating of 1,200 stocks, while the sector breakdowns correspond to industry groups graphed above. All figures are weighted for market capitalization.

Note: All data for periods ending 9/2/82. Prepared by Wilshire Associates, Santa Monica, Calif.

## Statistical Spotlight

*Some cyclical stocks are already moving up in the current rally. But others are not. Here's a list of the current laggards.*

# Smokestacks on the sidelines

**By Steve Kichen and Paul Bornstein**

It's REGULARLY BOOM or bust for both profits and share prices of cyclical companies. That's largely why there isn't much glamour in basic businesses like steelmaking, construction, machinery and paper products. But now that Wall Streeters sniff economic recovery in the air, sharp-eyed and venturesome investors spy the potential for substantial gains in boring smokestack industries.

Consider this: In 1975, when the S&P's 400 recovered 31.6% from the 1974 economic setback, S&P's auto parts index jumped 75.8% while paper companies and chemical companies advanced 50.1% and 47.4%, respectively. The depth of the current recession presents similar opportunities. For instance, John Henry, chemical analyst at E.F. Hutton, says: "The prices of fertilizer stocks already reflect the problems of grain surpluses and high interest rates. But they don't reflect the potential turnaround." Heavy buying in recent weeks put buy recommendations on many textile and chemical companies.

When the market caught fire in August, it left many of the cyclicals behind, missed out on the excitement. To take a closer look at these laggards, we asked William O'Neil & Co. to run some special screens on its computers. For starters we wanted only those industrial firms with what statisticians term a "relative strength" of 45% or less. That means these stocks were well down in the weaker half of

### Steel

**Foreign competition, overcapacity, high labor and regulatory costs and weakened balanced sheets make most of these steelmakers long shots for a dynamic post-recession comeback. These issues are largely at the bottom of their five-year price ranges, and in addition several sell at steep discounts from book value.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| Armco | 16¾ | 41¾–15¼ | $ 4.97 | $ 2.53 | 12% | 38% | $ 39.60 | $3.10 |
| Athlone Inds | 17¼ | 30 – 13 | 5.16 | 1.14 | 16 | 124 | 23.62 | NA |
| Bethlehem Steel | 18¾ | 32 – 14⅜ | 6.31 | –10.27 | 6 | 35 | 53.26 | 2.25 |
| Carpenter Technology | 32 | 53 – 20 | 5.20 | 3.85 | 17 | 2 | 32.29 | NA |
| Copperweld | 16 | 31¾ – 10¼ | 4.34 | 1.34 | 12 | 35 | 18.93 | 2.25 |
| Eastmet Corp | 4¾ | 16¾ – 3¼ | 2.27 | –2.65 | 7 | 75 | 15.46 | NA |
| JB Foster | 6¾ | 18 – 3⅜ | 2.80 | 1.16 | 27 | 173 | 4.14 | NA |
| Interlake | 27¾ | 45 – 21¾ | 7.39 | 1.77 | 9 | 35 | 57.48 | 2.00 |
| Kaiser Steel | 19¾ | 50¾ – 13¾ | 12.84 | 2.40 | 13 | 93 | 36.10 | NA |
| Laclede Steel | 7¾ | 18¾ – 7¼ | 2.45 | –3.87 | 2 | 38 | 28.39 | NA |
| LTV | 10¾ | 26¾ – 5¾ | 7.97 | –3.03 | 18 | 101 | 26.31 | 4.35 |
| Lukens | 10¾ | 19 – 8¼ | 2.48 | 0.90 | 6 | 21 | 27.37 | 1.60 |
| National Steel | 17¾ | 35¾ – 13¾ | 6.56 | 0.11 | 5 | 45 | 79.88 | 2.05 |
| NVF | 1¾ | 7 – 1 | 0.59 | 0.01 | 10 | 265 | 2.84 | NA |
| Phoenix Steel | 1¾ | 5¾ – 1¼ | 0.18 | –2.22 | 64 | NM | 0.47 | 0.15 |
| Quanex | 8¾ | 29¾ – 5¾ | 3.05 | 0.85 | 21 | 31 | 12.18 | 1.20 |
| Republic Steel | 17¾ | 32¾ – 15¼ | 8.38 | 2.54 | 7 | 36 | 102.64 | 3.00 |
| Sharon Steel | 2¾ | 10¾ – 1¾ | 0.71 | –0.03 | 7 | 240 | 2.71 | NA |
| US Steel | 20¾ | 35¼ – 16 | 7.57 | –4.46 | 5 | 35 | 70.18 | 3.15 |
| Valley Inds | 5¾ | 16 – 4¾ | 1.65 | 0.32 | 12 | 40 | 7.84 | 0.85 |

*Price range for less than five years. NA Not available. NM Not meaningful.

Source: William O'Neil & Co.

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## Statistical Spotlight

the market in overall performance over the past 12 months. Since we were also interested in stocks that are undervalued relative to their five year price-to-earnings multiple, we eliminated all issues selling at more than 3 times their lowest earnings multiple over the past five years.

Some companies like steelmakers Quanex and Armco showed up on our screen of cyclical stocks even though they had achieved five straight years of earnings growth. We included them in our table only if the earnings estimate for the next fiscal year indicates a decline. Our logic: Perhaps such firms really haven't avoided the recession; they have just managed to look resilient for a longer period of time.

The result of our efforts is a list of cyclical companies that Wall Street is ignoring. Investors have an overwhelming confidence in the ability of these companies to make a comeback in the near future. Our list, of course, would have been larger were it not for the recent market surge. Thanks to the rekindled interest in such well-known names as General Motors,

## Equipment and parts

**The fortunes of most of these companies are tied to the health of autos, construction and agriculture. Earnings estimates indicate that 1983 is likely to be a lean year, but it could change if broader economic conditions improve. The more troubled firms in this group are selling at steep discounts from book value.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| American Hoist & Derrick | 11⅝ | 26½– 8¾ | $3.60 | $2.57 | 11% | 48% | $31.67 | $1.40 |
| Bucyrus-Erie | 13 | 27½–10¼ | 2.75 | 1.84 | 13 | 44 | 19.69 | 1.60 |
| Caterpillar Tractor | 38⅝ | 73¼–34½ | 6.64 | 5.16 | 17 | 25 | 43.84 | 3.20 |
| CCI Corp | 10 | 17¼– 4¾ | 3.05 | 1.18 | 19 | 53 | 14.58 | NA |
| Cross & Trecker | 15¾ | 41¼– 5¼ | 3.32 | 0.81 | 21 | 7 | 15.16 | 0.80 |
| Fruehauf | 16⅞ | 40 –15¼ | 7.28 | 1.74 | 10 | 79 | 42.27 | 2.55 |
| Harnischfeger | 7¼ | 26 – 6¼ | 2.93 | –0.13 | 7 | 48 | 23.16 | 0.05 |
| International Harvester | 4⅝ | 45½– 2¾ | 12.01 | –12.49 | NM | 134 | 45.88 | NA |
| Kennametal | 26 | 42¼–13 | 3.06 | 1.89 | 18 | 17 | 17.49 | 3.00 |
| AO Smith | 8¼ | 24⅞– 7⅝ | 6.01 | 0.36 | 6 | 46 | 43.07 | 1.25 |
| Stanadyne | 26¼ | 46¼–19¼ | 5.27 | 2.80 | 16 | 19 | 29.56 | 5.75 |

NA Not available NM Not meaningful

*Source: William O'Neil & Co*

## Chemicals

**These five diversified chemical and fertilizer firms could benefit from a weaker dollar and stronger domestic and foreign economies. But until there are clearer signs that business is about to improve, the companies should continue to trade at the lower end of their five-year ranges—which still leaves room for price gains.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| Beker Inds | 4⅞ | 25 – 2⅞ | $3.16 | $–2.66 | 8% | 43% | $10.12 | NA |
| First Mississippi | 7⅝ | 30⅜– 3¼ | 1.63 | 0.20 | 16 | 38 | 6.85 | NA |
| Intl Minerals & Chemical | 28⅛ | 66½–22¾ | 5.63 | 4.41 | 16 | 50 | 36.96 | NA |
| Univar | 15¾ | 35 – 6¼ | 3.21 | 1.20 | 17 | 85 | 17.34 | NA |
| Williams Cos | 15⅛ | 49⅝–12⅝ | 5.07 | 0.40 | 10 | 65 | 34.51 | $2.20 |

NA Not available

*Source: William O'Neil & Co*

## Paper and packaging

**Weak demand, both domestic and foreign, is hurting these paper and package makers. Improvement in the overall economy would obviously help, and that's why many analysts expect better earnings in 1983. Nevertheless, next year's earnings for most of these companies aren't expected to top their five-year peaks.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| Chesapeake Corp of VA | 22⅝ | 39⅝–12⅝ | $4.22 | $1.44 | 15% | 41% | $26.29 | $2.80 |
| Crown Zellerbach | 18⅛ | 62¾–15¼ | 5.24 | 2.47 | 9 | 51 | 45.51 | 2.60 |
| Federal Paper Board | 20⅜ | 39¼–12½ | 4.61 | 0.99 | 14 | 187 | 26.76 | 4.45 |
| PH Glatfelter | 24½ | 36½–17½ | 5.15 | 3.25 | 15 | 4 | 33.56 | 5.00 |
| Hammermill Paper | 24½ | 35¾–16¼ | 5.57 | 2.51 | 12 | 66 | 45.61 | 5.05 |
| Longview Fibre | 18½ | 40 –14½ | 3.36 | 0.11 | 10 | 67 | 15.12 | 1.10 |
| Mead Corp | 16¼ | 33⅜–13½ | 5.42 | 4.00 | 15 | 83 | 33.83 | 3.05 |
| St Regis Paper | 21⅝ | 42½–17½ | 5.20 | 3.36 | 12 | 54 | 42.59 | 3.50 |
| Scott Paper | 16⅛ | 28½–12 | 3.52 | 2.41 | 11 | 39 | 30.20 | 3.10 |
| Southwest Forest Inds | 9⅞ | 28⅞– 7¼ | 3.53 | 1.13 | 9 | 103 | 27.16 | 1.25 |
| Westvaco | 20¼ | 30½–15½ | 3.95 | 2.45 | 14 | 39 | 26.68 | 3.65 |

*Source: William O'Neil & Co*

Ford, Wheeling Pittsburgh Steel and Newmont Mining, they dropped off our relative strength screen.

Some of the pessimism here stems from what analysts see as fundamental changes in many industries. Today's "undervaluation," they think, may become a permanent condition. Aluminum is but one example. "There is still a lot of overcapacity, and there is no longer a materials substitution factor," says Merrill Lynch's Steven Resnick. He sees another looming problem, too: "This is an energy-intensive industry, and many firms have low-cost energy contracts that are running out."

Much the same may be true for steel, according to Ben Rice of Chemical Bank's trust department. "There is greater competition than ever today," he explains. "And in a period of disinflation, with plants running below 45% of capacity, it is a poor time for the price hikes that the industry needs badly."

By our analysis, however, cheap is where you find it—and, based on the latest 12 months' earnings, 24 of the 77 companies are selling at a P/E multiple of 6 or less. Of this group more than 40% are selling at a multiple of 5 or less, based on the earnings estimate for the next year. Look closely at Hammermill Paper, Scott Paper, National Can and LTV.

A reduction in interest rates will obviously strengthen the balance sheets of the cyclicals. But another important benefit is that a drop in rates should mean a weaker dollar overseas. This is of particular value to many of these export-sensitive firms.

Our group of cyclicals, of course, lost plenty of ground in the market decline that started in the summer of 1981. But the majority of these firms have responded to their falling fortunes by making deeper than usual cuts in excess personnel, inventory and capacity. They are now leaner and meaner, which should translate into reduced downside risk in terms of stock prices. Enjoy our shopping list—and remember, Wall Street's bargain counter is getting smaller every day. ■

## Metals and mining

**With many mining companies now selling their output for less than the cost of production, it's no surprise that this diversified group of firms has shown relatively lackluster stock market performance over the past 12 months. With few exceptions 1983 earnings are expected to be much closer to five-year lows than highs.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| Ampco-Pittsburgh | 12⅞ | 26¼– 9 | $3.92 | $1.36 | 12% | 112% | $25.40 | $1.45 |
| Cleveland-Cliffs Iron | 20⅝ | 46⅛–16 | 4.12 | 2.14 | 14 | 10 | 30.11 | 2.20 |
| Commercial Shearing | 11 | 20½– 8⅛ | 1.92 | 1.13 | 15 | 6 | 11.77 | 1.50 |
| Diversified Inds | 2 | 8¾– 1 | 0.92 | –2.76 | 3 | 23 | 3.34 | NA |
| Eastern Gas & Fuel Assoc | 17¼ | 32½–13 | 2.65 | 0.59 | 11 | 65 | 20.81 | 3.60 |
| Hanna Mining | 19 | 41¼–16½ | 6.14 | 2.88 | 10 | 16 | 49.22 | 2.15 |
| Harsco | 15⅝ | 21⅛–13 | 3.15 | 2.26 | 15 | 32 | 19.86 | 3.00 |
| Kaiser Aluminum & Chem | 13¾ | 30¼–11½ | 5.91 | 2.77 | 14 | 61 | 34.77 | 1.35 |
| National Can | 17¼ | 26¼–13½ | 5.04 | 1.20 | 11 | 44 | 36.05 | 3.85 |
| Phelps Dodge | 22⅛ | 48½–17⅝ | 5.06 | 0.64 | 7 | 51 | 52.32 | –0.40 |
| Pittston | 14 | 34¼–11⅞ | 2.14 | 0.67 | 8 | 20 | 17.66 | 1.50 |
| Revere Copper & Brass | 9⅝ | 25¼– 8⅛ | 4.50 | 1.64 | 11 | 91 | 33.16 | 1.55 |
| Westmoreland Coal | 17¼ | 42½–14 | 2.62 | –2.17 | NM | 50 | 23.97 | 3.45 |
| Wyman-Gordon | 17½ | 27 – 7⅞ | 3.05 | 1.15 | 18 | 10 | 12.67 | 2.85 |

NA: Not available NM: Not meaningful

*Source: William O'Neil & Co.*

## Construction

**These firms are prime beneficiaries of lower interest rates. Should the cost of borrowing money continue to fall, their share prices are likely to benefit from pent-up demand and increased economic activity. High five-year return on equity figures for several of these companies show their earning power in better times.**

| Company | Recent price | 5-year price range | 5-year earning range high | 5-year earning range low | 5-year return on equity | Debt/ equity | Book value per share | EPS est 1983 |
|---|---|---|---|---|---|---|---|---|
| American Standard | 22⅝ | 43¾–16⅛ | $5.00 | $2.82 | 21% | 41% | $24.23 | $3.40 |
| Bird & Son | 7½ | 26 – 4⅝ | 3.94 | –6.50 | NM | 36 | 18.28 | 1.25 |
| Butler Mfg | 22½ | 32¼–18½ | 4.21 | 2.92 | 13 | 27 | 29.92 | 3.00 |
| Cal Portland Cement | 18 | 28⅛–11⅛ | 3.49 | 1.92 | 16 | 33 | 22.85 | |
| Crane | 20⅜ | 45⅞–17¾ | 5.87 | 3.23 | 13 | 67 | 41.77 | |
| GAF | 10 | 16⅜– 7¼ | 2.29 | –3.69 | 11 | 144 | 5.18 | |
| Edward Hines Lumber | 14½ | 26¼–13 | 6.17 | –3.31 | 5 | 26 | 44.72 | |
| Koppers | 13¾ | 35¼–11¼ | 3.27 | 1.58 | 10 | 40 | 25.82 | 2.40 |
| Manville* | 4⅝ | 34¼– 4¼ | 5.62 | 1.53 | 7 | 42 | 51.14 | 2.00 |
| McQuay-Perfex | 11¼ | 17⅜– 7¼ | 2.43 | 1.67 | 13 | 32 | 20.62 | 2.25 |
| Nucor | 43⅛ | 82¼–11½ | 6.62 | 1.92 | 24 | 39 | 30.50 | 4.60 |
| Pacific Lumber | 18¼ | 34 –15 | 2.09 | 1.36 | 25 | 8 | 8.66 | 1.60 |
| Pittsburgh-Des Moines | 15¼ | 60 –10 | 4.54 | 2.62 | 15 | 23 | 26.65 | NA |
| Potlatch | 25 | 49¼–19 | 4.69 | 3.24 | 12 | 64 | 35.55 | 2.15 |
| Trinity Inds | 11 | 30¼– 4 | 2.95 | 0.63 | 24 | 38 | 11.21 | 1.90 |
| Tyler Corp | 16¼ | 29⅛–10⅛ | 2.91 | 1.83 | 20 | 144 | 8.57 | 2.15 |

*In Chapter 11 NA: Not available NM: Not available

*Source: William O'Neil & Co.*